STATEMENT

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 22, 2011

SB 172, An Act Concerning Disclosures For Certain Life Insurance Policy Owners

The Insurance Association of Connecticut opposes SB 172, An Act Concerning Disclosures For Certain Life Insurance Policy Owners.

SB 172 is patterned after an NCOIL Model that was adopted last year over substantial opposition. In New Mexico, similar legislation was recently defeated in committee. To date, no state has adopted the model.

SB 172 would require written notice to individual life insurance policyholders, upon the occurrence of certain events, of options available to the policyholder. Such a costly and burdensome requirement is unnecessary, as life insurers fully inform the insureds of their policy options.

Life insurers are required to provide numerous disclosures under current Connecticut law. For example, see C.G.S. 38a-457 and Regulations 38a-457-1 et seq. (accelerated benefits); under Regulation 38a-819-36, a Buyer's Guide and Policy Summary, a comprehensive summary of life insurance products, must be provided to the policyholders; life insurance illustrations (Regulation 38a-819-58 et seq.) and annual reports (Regulation 38a-819-65) are also provided.

SB 172 would also require life insurers to notify policyholders that they could enter into a "life settlement contract". In effect, SB 172 would require insurers to advertise the business of life settlement companies. There is no legitimate reason why insurers should be required to market another business's products. Life settlement companies are fully capable of doing that on their own.

Life settlement companies are regulated by C.G.S. 38a-465 to 38a-465g. During legislative debate on the issue in Connecticut in 2008, the life settlement industry sought language similar to the insurer disclosure provisions in section 1(b)(2)(C) of SB 172, which was specifically rejected.

Life settlement companies seek out older persons and persons in poor health in order to "buy" their life insurance policies, paying them an amount that is considerably less than the future death benefit. The life settlement company then takes responsibility for paying the premiums on the policy. The sooner the person dies, the more money the investors make.

SB 172, by requiring insurers to notify their customers of the life settlement "alternative", may give insureds the impression that life insurers endorse or promote the life settlement industry. That is certainly not the case.

In addition, only a very small minority of policyholders, to whom the notice required by SB 172 would be sent, would ever receive settlement offers in excess of the policies' cash surrender values. The average life insurance death benefit is around $100,000, with most policies at $50,000. Settlement investors are focused on policies with much larger face values that are owned by older persons in grave health (short life expectancies).

SB 172 may cause policyholders to vainly explore the life settlement option. Recent press reports describe instances where policyholders are induced to continue to pay premiums as they seek out a "buyer" for their policy, to no avail, and to their financial detriment. A recent Wall Street Journal article (2-2-11) describes one such attempt involving an 81 year old man who couldn't find a buyer because he was too healthy.

SB 172 would cause insurers to incur significant administrative costs to provide unnecessary notices which could mislead and confuse life insurance policyholders. IAC urges rejection of SB 172.